

Message Text

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TO AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EAIR, UK

SUBJECT: ECGD SUPPORT FOR ROLLS ROYCE ENGINE SALE FOR
PANAM

1. FOR FINATT AMMERMAN. AS REQUESTED SET FORTH BELOW
IS AN EXCERPT FROM THE SPEECH DELIVERED BY DONALD A.
FURTADO, SENIOR VICE PRESIDENT, EXPORT-IMPORT BANK, TO
THE AEROSPACE INDUSTRIES ASSOCIATION ON APRIL 18:

"THE PAN AMERICAN TRANSACTION IS, HOWEVER, A CLEAR
EXAMPLE OF EXTRAORDINARY USE OF GOVERNMENT FINANCIAL
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SUPPORT TO OBTAIN A COMPETITIVE ADVANTAGE FOR THE SALE
OF A FOREIGN PRODUCT -- IN THIS PARTICULAR CASE, THE
LOCKHEED PURCHASE OF ROLLS ROYCE ENGINES RATHER THAN U.S.
ENGINES. ALTHOUGH THE EXACT TERMS OF THE BRITISH
GOVERNMENT SUPPORT FOR ITS ROLLS ROYCE ENGINES ARE NOT
KNOWN, NUMEROUS PUBLIC REPORTS ALLEGE THAT THE BRITISH
EXPORT CREDIT AGENCY PROVIDED A 15-YEAR LOAN FOR 100
PERCENT OF THE VALUE OF THE ENGINES, PLUS A 100 PERCENT
GUARANTEE OR INSURANCE FOR THE PRIVATE FINANCING FOR THE

U.S. MANUFACTURED AIRFRAMES WHICH WOULD TYPICALLY COST ABOUT FOUR TIMES THE COST OF THE ENGINES THEMSELVES.

"ALL OF US RECOGNIZE THAT THE BRITISH FINANCIAL SUPPORT DIRECTLY BENEFITS A U.S. AIRLINE AND A U.S. AIRFRAME MANUFACTURER. FOR THAT, WE ARE THANKFUL. WHAT IS TROUBLING, HOWEVER, IS THAT THE BRITISH TERMS WERE IN VIOLATION OF THREE BASIC PRINCIPLES OF THE LIMITED AIRCRAFT UNDERSTANDING TO WHICH THE BRITISH GOVERNMENT SUPPOSEDLY ADHERED. SPECIFICALLY, THERE WAS NO 10 PERCENT MINIMUM CASH PAYMENT; THERE WAS A REPAYMENT TERM LONGER THAN 10 YEARS; AND THERE WAS LOCAL COST SUPPORT (THAT IS, SUPPORT FOR THE VALUE OF THE U.S.-PRODUCED AIRFRAME) IN THE RANGE OF 400 PERCENT -- IN A CASE IN WHICH NO LOCAL COST SUPPORT WOULD NORMALLY BE PERMITTED.

"NO ONE CAN CONDEMN EITHER LOCKHEED, PAN AM, EASTERN AIRLINES OR ANY OTHER AIRCRAFT SELLER OR BUYER FOR NEGOTIATING THE BEST DEAL IT CAN. WE WOULD DO THE SAME IN THEIR CIRCUMSTANCES.

"WE CAN BE CONCERNED, HOWEVER, ABOUT THE LONG-TERM IMPACT OF GOVERNMENT INTRUSION INTO THE COMPETITIVE PROCESS. BLATANT DEPARTURES FROM EXISTING EXPORT CREDIT UNDER-
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STANDINGS AND CONTINUED EFFORTS TO INFLUENCE PURCHASING DECISIONS THROUGH GOVERNMENT INTERVENTION CLEARLY DAMAGE THE VIABILITY OF EXISTING EXPORT CREDIT AGREEMENTS AND HAMPER FUTURE EFFORTS TO STRENGTHEN AND IMPROVE SUCH AGREEMENTS. THE RESULT CAN BE AN ESCALATING EXPORT CREDIT WAR WHICH CAUSES BITTERNESS AMONG TRADING PARTNERS AND PROVIDES FUEL FOR PROTECTIONIST ARGUMENTS. OUR AVERSION TO PROTECTIONISM AND CREDIT WARS IS BASED ON SELFISH ECONOMICS. PROTECTIONISM AND CREDIT WARS TAKE MONEY OUT OF OUR POCKETS -- AND THOSE OF OUR FOREIGN COUNTERPARTS -- EITHER THROUGH HIGHER COSTS FOR GOODS AND SERVICES OR SUBSIDIZING BY YOU AND ME OF THE BENEFITTING SECTORS."

2. ALTHOUGH THIS SUBJECT MAY BE TOUCHED ON BY EXIMBANK CHAIRMAN MOORE DURING HIS LONDON VISIT WE ANTICIPATE THAT IN-DEPTH DISCUSSIONS OF THIS MATTER WOULD OCCUR WITHIN THE CONTEXT OF INFORMAL BILATERAL MEETINGS WHICH WE HAVE PROPOSED FOR THE WEEK OF MAY 22-26.

3. A COPY OF THE COMPLETE SPEECH IS BEING SENT TO YOU BY INTERNATIONAL AIR MAIL. VANCE

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